



**National Association of Federal Credit Unions**

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October 28, 2005

**Letter of Comment No: 78**  
**File Reference: 1204-001**

Technical Director - File Reference No. 1204-001  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: Comments on Proposed Revisions to Statement 141

Dear Technical Director:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, in response to the Financial Accounting Standards Board request for comment on its exposure draft revising Statement 141, *Business Combinations*.

The proposed Statement is being issued as part of a joint effort by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) ("Boards") to improve financial reporting and further international convergence of accounting standards. The Boards believe that developing a common set of high-quality financial accounting standards improves the comparability of financial information around the world. The proposed Statement seeks to improve financial reporting by requiring the acquisition method or "purchase method" be applied to more business combinations, including those involving only mutual entities (including credit unions) and those achieved by contract alone. It appears that the Boards believe that applying a single method of accounting to all business combinations will result in more comparable and transparent financial statements.

While the proposed Statement is the end result of much deliberation on the part of the Boards to amend Statement 141, NAFCU remains concerned that the change in accounting to the purchase method will negatively affect credit unions.

First, unless the definition of net worth is amended in the Federal Credit Union Act, once the proposed Statement is effective, credit unions conducting combinations may end up with their net worth ratio skewed for prompt corrective action (PCA)

purposes. Under the Act, net worth is defined as the retained earnings of the credit union. Under the proposed statement, retained earnings of the acquired credit union will be classified as acquired equity. Thus, the retained earnings of the acquired credit union will not be reflected in the net worth of the acquirer for the purposes of PCA.

In order to correct this unintended result, NAFCU, with the support of NCUA, and the understanding of FASB, sought the introduction of the *Net Worth Amendment for Credit Unions Act*, H.R. 1042. Introduced in March 2005 by House Financial Institutions Subcommittee Chairman Spencer Bachus (R-AL) and Ranking Member Bernie Sanders (I-VT), the bill would amend the Federal Credit Union Act to define net worth as retained earnings of the credit union plus the retained earnings of any other credit union with which it has previously combined. The bill has passed the House of Representatives, but has not yet passed the Senate.

Second, even assuming that the *Net Worth Amendment for Credit Unions Act* is passed and credit unions will be able to include the equity of both credit unions in the net worth calculation, NAFCU is still not in favor of using the acquisition method of accounting.

Many credit union mergers are not the result of two healthy credit unions merging in order to gain market share. Instead, one credit union is often in financial difficulty and must merge with another credit union for safety and soundness reasons. If the statement is implemented as currently drafted, the "acquiring" credit union will incur potentially large expenses to appraise the balance sheet of the "acquired" credit union. Under the current pooling method, accounting and lending employees of the "acquiring" credit union can assess the balance sheets without incurring materially significant expenses. In contrast, to account for the transaction under the purchase method of accounting may misrepresent the assets and liabilities of the surviving institution, due to the difficulty in assessing fair value of the acquired institution. Under this scenario, it is unlikely that credit unions will find willing merger partners.

Credit unions are unique in that when they combine, it is a true pooling of interests, and the institutions move forward from day one to act in the interests of all of the members of the combined credit unions. Accordingly, NAFCU urges the Board to retain the "pooling" method of accounting for credit unions. Further, should FASB choose to finalize the exposure draft in its current form, NAFCU urges FASB to delay the effective date until Congress has enacted the *Net Worth Amendment for Credit Unions Act*, or similar legislation.

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NAFCU would like to thank you for this opportunity to share its views on this proposed rule. Should you have any questions or require additional information, please call me or Carrie Hunt, NAFCU's Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

A handwritten signature in cursive script, reading "Fred R. Becker, Jr.", positioned to the left of a vertical dotted line.

Fred R. Becker, Jr.  
President/CEO

FRB/crh